

California Debt Limit Allocation Committee

Presentation to:
Tools to Revitalize California
Communities

Laurie Weir
Executive Director

Introduction

- Who are we and what do we do?
- Overview of CDLAC Process
- Rental Project Program
- Extra Credit Program

Who are we and what do we do?

- When you see
California Debt Limit Allocation
Committee
think
California Tax-Exempt Bond
Allocation Committee

What's so great about tax-exempt bonds?

- Tax-exempt bonds provide low (think *really* low) interest rate financing, and the ability to receive valuable equity, to finance affordable housing and other types of projects in your community.

Overview of Process

- California's Tax-Exempt Private Activity Bond Volume Cap
- Determination of the State Ceiling, Competitive Rounds and Program Pool Amounts
- Applications and Credit Enhancement
- Allocation Systems for Program Pools

California' Private Activity Bond Volume Cap

- The bond volume cap is the LIMIT on the dollar amount of tax-exempt private activity bonds that can be issued in each state.
- CDLAC was created in 1985 by Governor proclamation.
- Members: State Treasurer, Chair, Governor, Controller, Three Advisory Members.

California's Private Activity Bond Volume Cap

- The Federal rules = Section 26 of the IRS Code.
- The State rules = The Procedures of the California Debt Limit Allocation Committee.
- The Procedures were created with public input and outline all priorities, programs and requirements relating to the allocation of tax-exempt private activity bond allocation.

California's Private Activity Bond Volume Cap

- The Committee is fee-based and has no funding from the state budget.

Determination of the State Ceiling, Competitive Rounds and Program Pool Amounts

- Annual state ceiling (limit) based on population (35,484,453) x \$80. This year's ceiling is \$2.83 billion.
- Project or program must be private activity of public purpose.
- Each January the Committee announces the ceiling, the amount of bond authority in each program pool and the schedule for application cycles.

Applications and Credit Enhancement

- Applications must be from city, county, joint power authority or statewide issuer.
- Issuer is a 'conduit' for the project. No liability to public entity.
- Each project is credit enhanced by major financial institution (with the exception of CalHFA).

Program Pools

- Residential Rental Project Pool
Rural, Mixed Income, General
- Single Family Program Pool
MRB Program and MCC Program
- Extra Credit Program Pool
- Industrial Development Bond Pool
Main IDB Program, Energy Finance Program, Small Business Program, Equipment Only Purchase Program
- Exempt Facility Project Pool
- Student Loan Program Pool

Residential Rental Project Pool

- Statutory emphasis: to promote housing for lower income families and individuals and to preserve and rehabilitate existing governmental assisted housing for lower income families and individuals.
- The lion's share of the state ceiling: 54.7% or \$1.5 billion for Rental Projects.
- Sub-Categories:

General	\$	1 billion
Mixed Income	\$	390 million
Rural	\$	160 million

Residential Rental Projects

■ Minimum Criteria

- ✓ Site control
- ✓ Local Zoning Approvals
- ✓ Rent restrictions
- ✓ Restricted rents must be 10% below market rents
- ✓ Minimum construction cost of \$7,500/unit for acquisition/rehab.

Residential Rental Projects

- **Evaluation Criteria - Points are awarded for the following:**
 - ✓ Federally assisted at-risk projects
 - ✓ Exceeding minimum income and rent restrictions
 - ✓ Use of gross rents (rents that include utility allowance)
 - ✓ Exceeding minimum term of restrictions

Residential Rental Projects

- ✓ Large family units
- ✓ Leveraging (public vs. taxable)
- ✓ Location in a revitalization area
- ✓ Site & service amenities
- ✓ Energy efficiency
- ✓ New construction

Residential Rental Projects

- Projects that receive an award of bond authority have the right to apply for non-competitive 4% tax credits.
- In order to receive the 4% credit, a project must meet the 50% test.
- The 50% test requires that at least half of the aggregate basis plus land (approximately the entire project cost) be financed with tax-exempt bonds.

Residential Rental Project Pool

- An award of bond authority results in the recording of a regulatory agreement which restricts rents to specified income levels for up to 55 years.

Residential Rental Project Pool

- Applicants are Bond Issuers.
- Project Sponsors are for profit and non-profit developers.
- Trend 2004: Impact of construction cost increases, Mixed Income Pool reduced demand.
- New Open Application System

Extra Credit Teacher Program

- A single family program designed to address the connection between the lack of credentialed teachers and high priority schools.
- The program assists school districts to recruit and retain qualified credentialed school staff in high priority schools.

Extra Credit Teacher Program

- In addition to the below-market interest rate loan or MCC, the teacher receives substantial homeownership assistance for agreeing to work in a low performing school for three years.
- The Extra Credit Teacher Program is administered on a statewide basis by CalHFA: www.calhfa.ca.gov.

Public Benefit Analysis For All Programs

- A Public Benefit Analysis is available for each program pool in each application round.
- These analyses are available, along with other important information and forms on our website:
www.treasurer.ca.gov/cdlac.

Typical Bond Structures, or How Does a Bond Deal Work?

■ Rental Projects:

- ◆ The public entity issues the bonds, the bonds are either underwritten, credit enhanced and rated through a rating agency, or are unrated and privately placed with a major financial institution.
- ◆ The proceeds from the sale of bonds are used to back a loan with a lender. The lender disburses loan proceeds for the development of the project.
- ◆ The project makes loan payments to the lender, through the trustee, back to the bond holders.

Conclusion

- The tax-exempt bonds are an important vehicle for entities to borrow at low cost in order to provide more affordable housing in communities across California.

California Debt Limit Allocation Committee

In 2004 the Committee will award over \$2 billion in bond authority to affordable housing projects and programs across the state.